

U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON AGRICULTURE

Subcommittee on Department Operations,  
Oversight, Nutrition and Forestry

**REVIEW OF THE FOOD STAMP PROGRAM**

*Written Testimony of*

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Good Afternoon, Mr. Chairman and members of the Subcommittee. Thank you for the opportunity to testify. I am Doug Howard, Director of the Michigan Family Independence Agency, the state agency responsible for the food stamp program as well as TANF, child welfare and child protective services, child support enforcement, juvenile justice, adult protective services, and services for the disabled and the blind. Our goals are driven by a desire to help strengthen individuals and families through the services we offer. Prior to my current position in Michigan, I was the welfare administrator in Iowa. As a result of my experience and discussions with other states, I know the things I will discuss today are not one-state issues.

The Food Stamp Act of 1977 resulted in a program that provides a food and nutrition safety net to millions of our nation's less fortunate citizens. It is highly valued by the states as well as by the United States Department of Agriculture. However, the last time the food stamp program received a thorough review and overhaul was when the Act of 1977 was created. Thus, it was designed to function in a time when most food stamp recipients were also recipients of Aid to Families with Dependent Children. It does not adequately support the current state and national priorities of moving families toward self-sufficiency and helping vulnerable adults remain in their communities. The state flexibility that has been granted in the TANF and Medicaid programs is lacking in the food stamp program. It is overburdened with complex, prescriptive legislation and regulations. The program's major outcome measure is an antiquated Quality Control system that emphasizes payment accuracy to such an extent that it has become a barrier to access.

I realize that the current structure of the food stamp program is the result of good intentions. There is a desire on the one hand to try to target benefits to individual households defined as in the most need and encourage broad program access, while on the other hand, as good public stewards, we make other rules that we believe will support program integrity. Unfortunately, over the years

these competing tensions have resulted in a program that has grown in administrative complexity to the point that clients and our line staff are overwhelmed.

### **PRWORA: An Unfulfilled Hope for Food Stamp Flexibility and Program Coordination**

PRWORA provided an opportunity for states to prove that state flexibility would result in better services and better results for families receiving cash assistance. States used this opportunity to redesign services and processes to focus more on results for individuals and families than on bureaucratic paperwork.

While PRWORA did not fundamentally change the structure of the food stamp program, it had several provisions that seemed designed to facilitate more flexibility and coordination with other programs. The provisions regarding Operation of Food Stamp Offices, the Simplified Food Stamp Program, Waivers, and Comparable Treatment for Disqualification showed some promise. However, limitations in the law and prescriptive regulations made most of these provisions useless to states trying to simplify and make the program more congruent with its TANF program.

In fact, most of the food stamp provisions of PRWORA ended up making the program more complex. For example, not only was the immigrant provision complex as written, it was subsequently amended to include more eligible immigrants; the constant change was confusing to potential clients and staff. In addition, the regulations established different budgeting rules for the pre-PRWORA ineligible immigrants and the newly ineligible immigrants. Another example is the able-bodied adults without dependents policy which is extremely complex and involves monthly monitoring of these individuals to determine continued eligibility.

Even some of the “minor” simplifications have been undermined by regulation. For example, the law provided that a state might use mandatory standard utility allowances that would simplify budgeting by requiring households eligible for the allowance to use it rather than the numerous bills that would normally be required. Our state adopted three standards and mandated their use. Further, we did not allow any actual expenses for those not qualifying for the standard. We used this process beginning in October 1996 with few complaints. However, we had to make substantial changes in our policy in response to regulations published November 21, 2000. This new policy is not nearly as simple as the one we implemented in 1996. It is error-prone and will lead to more work for workers as they determine how much to recoup from clients or how much to supplement their benefits, due to the new errors the policy will cause.

The rest of my testimony will give my perspective on the current state of the program and make several recommendations for solutions to the problems I have identified.

### **FSP is Inhospitable to Working Families and Others**

Eligible working families who do not receive cash assistance participate in the food stamp program at very low rates. This has been true for many years. There are many structural barriers to participation for this group; many are caused by the emphasis on quality control payment accuracy. Working families are penalized with shorter certification periods, which means more office visits to continue eligibility. Each certification requires reverification of income and expenses. If the household does not have complete records this means the eligibility worker must contact employers, landlords, utility companies, day care providers, etc. In between certifications, earned income households have to track whether they need to report a change. This may sound easy, but

determining whether you have had an income change is quite complex as the program rules for projecting income involve averaging and converting income to monthly amounts and taking into account any known changes. Given the types of jobs held by low-income households, this can be a great challenge.

Let me provide you with a brief description of the food stamp program experience for an average working parent with two children. The parent will have to spend about five hours and at least two trips to the local office to complete the application process. Three months later the parent will have to spend another two and one-half hours completing the recertification process. It is likely that the parent will have to take at least some time off from work to complete these processes. During the interviews for these actions, the parent will be questioned about every aspect of his or her financial circumstances. If the parent does not have at least a month's worth of check stubs, plus all shelter and dependent care bills, his or her employer and service providers will be contacted to verify the circumstances.

Recently, FNS has taken some positive steps for working families. A new regulation allows six-month benefit periods or a six-month reporting system in which a working family only has to report if income exceeds the income limit (130% of poverty) for eligibility. In addition, states are allowed more latitude to waive in-person interviews to take into account work hours. However, budgeting requirements are still arcane and problematic for both clients and eligibility staff.

Asset limits are also outdated and have not kept pace with the costs of living or with the changes of welfare reform. The food stamp asset limit for vehicles is particularly inappropriate. It has been raised only slightly since 1977. Low-income working families and senior/disabled individuals need reliable vehicles to support their self-sufficiency. Current policies regarding vehicles and categorical eligibility, which have been devised to try to address these basic issues, while somewhat helpful, are confusing and complex.

Eligibility requirements for legal immigrants have changed several times since PRWORA (1996). There are still legal immigrants who are ineligible while their children are eligible. There are different budgeting rules for the PRWORA ineligible immigrants versus immigrants/visitors who were ineligible prior to PRWORA. Many immigrants just assume they are now ineligible and do not apply for benefits that would help their families.

Persons who receive SSI may apply for FS at the Social Security Administration, but their benefits must be determined according to all the food stamp rules, even though their circumstances may be stable and predictable, which results in additional contacts and confusion.

**Solutions:**

- Simplify eligibility and benefit determination requirements. For example, a process that uses household composition and income as the determining factors, allowing only an earned income disregard (to make work pay) versus the multiple factors that now exist would greatly simplify the rules and process for both recipients and workers.
- Directly certify food stamps for SSI recipients in eligible living situations.
- Establish a \$5,000 asset limit for all households. Exempt one vehicle for each person who is working or expected to work. For households with no one working or expected to work (senior/disabled), exempt one vehicle. Count all others at equity value.
- Allow states to define included and excluded assets to match their TANF cash assistance or Medicaid rules.
- Create a six-month transitional food stamp benefit for working families.

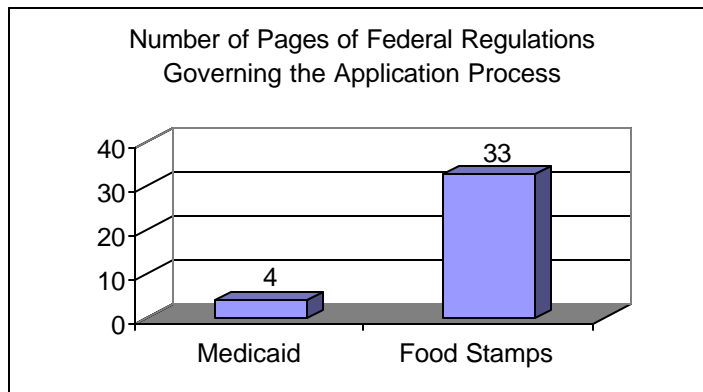
## **Hallmarks of the Program – Complexity, Overregulation, Micromanagement**

The certification regulations for the food stamp program are more than 200 pages in the USDA, FNS compilation. The regulations are very detailed in terms of eligibility factors such as group composition, assets, income, and allowable expenses, as well as the proper methodology for determining the amount of income and expenses. However, these are not the only detailed regulations. There are also specifics regarding many processes such as: application, change reporting and processing, and recertification.

In addition to the regulations, states regularly receive “Policy Memos” which are further explanations of the regulations – there are currently approximately 295 such memos (388 pages). FNS has also provided technical assistance handbooks to explain particularly complicated policies, for example – the “Excess Shelter Deduction Handbook” (76 pages).

On Feb 29, 2000, a proposed rule package was published which made extensive changes in the regulations regarding office operations and application processing. The proposed rule eliminated many of the prescriptive requirements that had been added over the years. These changes were proposed to reflect the state flexibility in PRWORA. However, when the final rule was published on November 21, 2000, most of the proposed changes that would have provided relief were eliminated and additional requirements were added. The regulation regarding the application process is 33 pages long, while the regulations governing the same process for the Medicaid program are only four pages long (despite the fact that the Medicaid program spends nearly 10 times more dollars than the food stamp program).

Exhibit 1. Application Process.



**Solutions:**

- Simplify eligibility and benefit determination requirements.
- Move to an eligibility review concept as used in TANF and Medicaid rather than a fixed certification period.
- Continue and expand recent options regarding the types of changes in circumstances that households must report.
- Require FNS to do a comprehensive review of the regulations and give state flexibility a higher priority, especially in process regulations such as application, verification, and recertification. States need flexibility to mesh processes across programs.
- Allow for and direct FNS to approve innovative state waivers to test new reporting and processing options.

**Employment & Training Requirements Reflect Pre-PRWORA Welfare View**

PRWORA reflects a sea change in the way welfare was structured in America. Instead of income maintenance, cash assistance is provided in a way that supports work and preparation for work. States are given great flexibility to



design systems that work for their localities. However, the food stamp program maintains its 1970-80s era requirements regarding who is expected to work, allowable work activities, and sanctions for non-participants. The only significant change to the food stamp program was to stiffen requirements for able-bodied adults without dependents and to direct employment and training funding to this group. The result has been unspent funds due to nonparticipation of the targeted group, while employment and training support for all other families and adults has been virtually eliminated.

The workforce Investment Act is encouraging states to bring all employment-related services into alignment, but the food stamp program insists on going its own way. States are not able to integrate their TANF and food stamp work programs. Thus, someone who may have a work requirement for TANF may not have a work requirement for food stamps. This causes client confusion and unnecessarily complex policy. Some options for encouraging work in TANF households, like cash out, are not available to non-TANF households and therefore are relatively useless. In addition, the \$25 limit on reimbursement for employment and training expenses significantly limits the ability of households to take advantage of the employment and training activities states do offer.

**Solutions:**

- Provide states the option to integrate (in all aspects) the food stamp employment and training requirements with TANF and WIA.
- Eliminate or significantly alter the requirement to devote 80% of employment and training funding to able-bodied adults without dependents.
- Eliminate the \$25 monthly maximum for federal matching of employment and training expenses. (Federal reimbursement for employment and training is capped at \$12.50.)

## **Electronic Benefit Transfer (EBT) Modernizes Issuance but Transfers Costs to the States**

I am proud to say that in Michigan, 100% of food stamps will be issued via EBT effective July 1, 2001. EBT offers many benefits to all the stakeholders in the food stamp system. It removes the stigma of the food coupon for recipients and puts them into the commercial mainstream. Retailers, banks and state agencies no longer have to handle paper coupons. USDA saves the cost of printing and handling billions of dollars in coupons. It also bolsters public confidence in the integrity of the program by eliminating the perception and reality of a major form of fraud – paper coupons being illegally sold and used.

However, in its current form EBT does not offer any monetary advantages to state government. To the contrary, states have absorbed a large and growing number of new costs to maintain this federally mandated benefit delivery system. Whereas major portions of creation, delivery, and issuance were 100% federally funded under the paper coupon system, costs under EBT have been shifted to a 50% state cost share. Specific examples of these costs include: contractor expenses for retailer management, payphone surcharges, time and expense of meeting new audit requirements, and the cost of contract changes required by new federal laws or regulations (such as the new federal adjustment rule). In fact, more and more states are spending more state dollars for EBT benefit delivery than they did for the old paper system. It is time to address this imbalance.

### **Solutions:**

- Reimburse states for 100% of the costs they have assumed that were not part of the old paper system. An alternative would be to provide a higher federal match, perhaps 75%, for all costs associated with EBT issuance, which would simplify the accounting necessary.

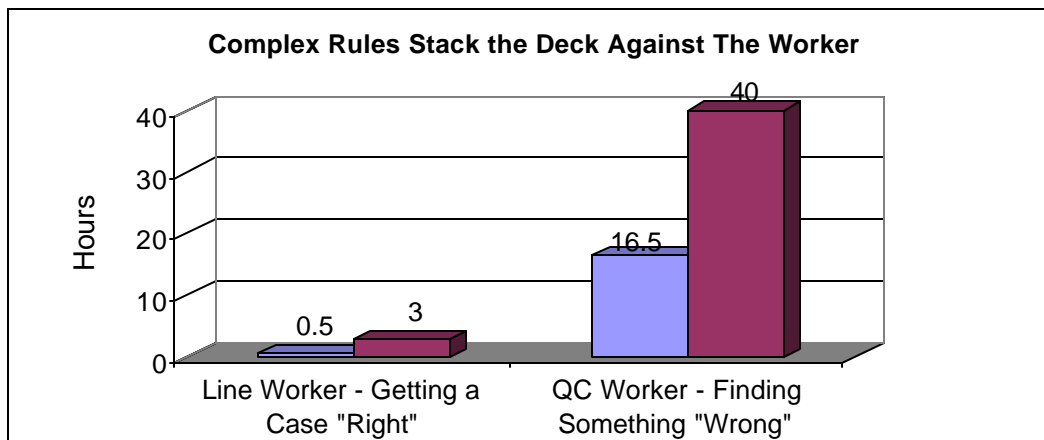
- USDA could reassume certain responsibilities that have been shifted to the state agencies, such as supplying equipment needed to redeem the electronic food stamp.

### **Quality Control in the FS Program, Antiquated, Unfair, Counterproductive**

The current QC system uses a point estimator (the national and state averages) that results in sanctions for between 1/3 and 1/2 of 54 states and federal territories. The system defines good performance as every state being below the national error rate average, a mathematical absurdity.

QC is set up to measure the “accuracy” of a determination of food stamp benefits that may involve more than 20 eligibility elements. QC staff average about 20 to 25 hours per case, with a minimum of 16.5 hours up to 40 hours for some cases. In contrast, eligibility workers spend between .5 and 3 hours to apply these rules. In addition, both eligibility staff and QC staff are encountering great difficulty in verifying eligibility factors (especially income) with collateral contacts (e.g. employers, landlords) because these contacts are tired of providing the information over and over again.

Exhibit 2. Minimum and Maximum Hours.



This sets up workers and states to fail when QC staff can spend 5-80 times longer to find a case “wrong.” The conclusion I reach is that it should not take up to 40 hours to QC a case unless the rules are so complex that they aren’t reasonable to manage.

In recognition of the basic problem with the sanction system (i.e., an unobtainable target because there is no way all states can be below average), the Secretary of Agriculture has negotiated settlement agreements with states to reinvest the sanction into the state’s administration of the program. Most of the early agreements allowed states to reinvest a percentage of the sanction with the remaining amount held “at risk” should the state not meet its performance target. However, there is no additional adjustment made should a state better its target. Recently, the USDA has not even offered the incentive that the state may eliminate part of the sanction through the “at risk” approach. States are required to reinvest the entire sanction amount. The result for Michigan is that although we lowered our error rate over 4 percentage points, we have to reinvest an amount somewhat greater for 1999 than for 1998 when our error rate was significantly higher.

Beginning with 1998, the Secretary adjusted a state’s error rate to consider the effects of the changed immigrant policy and for the state’s proportion of earned income cases. In January 2001, USDA announced it’s intent to make the earned income adjustment account for states that implemented welfare reform as early as 1992. However, when the error rate estimates were published in April 2001, they did not reflect this adjustment because “the data is not available.” (We do have this data.) This disproportionately affects Michigan (and several other states) since we were one of the first states to implement welfare reform through waivers. In effect, it penalizes us for our early success in moving people into the workforce.

The current QC system causes unintended consequences for families and the program. For years, FNS pushed 3-month certification periods as a solution to the error rate. Now, everyone from Congress to advocacy groups and FNS itself is concerned about dropping participation rates. Could it be that the QC driven trend to shorter certification periods and increased verification requirements has played a significant part in this declining participation?

**Solutions:**

- Move to an incentive system of outcome measures for the program, within which a dramatically revised payment accuracy measurement will only be one factor.
- For all measurements of the state's error rate use the lower bound of the confidence-interval rather than the point estimator.
- Simplify the complex requirements for determining eligibility and calculating benefits. (This is supported by GAO Recommendation in GAO-01-272, Food Stamp Program, States Seek to Reduce Payment Errors and Program Complexity.)
- Rethink what payment accuracy should mean given the findings of the Mathematica company's paper, "Food Stamp Payment Errors: How Big Are They, What Is Their Impact, and What Do We Know About Households with These Errors" which suggests that accuracy might be best described as "eligible" and inaccuracy as "ineligible."

Thank you again for the opportunity to testify today. States want to be a productive partner in improving the program, but, as you can tell, our frustration levels are growing. I look forward to working with you in restructuring the food stamp program so that this important component of the federal safety net better serves the needs of low-income families and individuals while providing the outcome measures and accountability that the public has every right to expect.